

Cash Handling Audit

June 2007

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City Auditor's Office

June 15, 2007

Honorable Mayor and Members of the City Council:

I am pleased to present the City Auditor's Office's report on cash handling within the City of Arlington. The purpose of the audit was to evaluate controls over cash handling and to ensure that City funds were accounted for, an adequate separation of duties exists and that funds are adequately safeguarded and deposited in a timely manner.

Internal control weaknesses were noted in the City's current cash handling processes. Accordingly, the City Auditor's Office made recommendations for improvement. Implementation of our audit recommendations should reduce the opportunity for theft of monies collected on the City's behalf.

Management's responses to our audit findings and recommendations, as well as target implementation dates and responsibilities are included in the following report.

We would like to thank all City departments for their full cooperation and assistance during this project.

Patrice Randle, CPA
City Auditor

c: Jim Holgersson, City Manager
Fiona Allen, Deputy City Manager
Ron Olson, Deputy City Manager
Gilbert Perales, Deputy City Manager
Trey Yelverton, Deputy City Manager
All Department Heads

Cash Handling Audit

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CASH HANDLING AUDIT



Office of the City Auditor

Patrice Randle, CPA
City Auditor

Report #07-03

June 15, 2007

Executive Summary

The City Auditor's Office reviewed cash handling activities for FY 2006

A commercial crime insurance policy covers all City employees

Existing controls over cash handling activities need to be strengthened

Opportunities for Improvement

- *Manual cash receipts*
- *Processes to enhance staff accountability*
- *Proper cash handling assignments*
- *Timely deposits*
- *Reasonable petty cash and change funds*
- *Properly completed petty cash vouchers*
- *Petty cash restrictions*
- *Timely processing of temporary income benefits checks*
- *Employee safety while transporting funds*
- *Mandatory training*
- *Credit card receipts*

The City Auditor's Office has completed an audit of cash handling activities in accordance with generally accepted government auditing standards. The overall objectives of the audit were to evaluate city-wide controls to ensure that City funds are accounted for, an adequate separation of duties exists, and that funds are adequately safeguarded and deposited in a timely manner. The cash handling audit was a part of the FY 2007 Annual Audit Plan.

Internal Audit concluded that some of the City's cash receipting and reporting processes do not provide reasonable assurance that monies collected on behalf of the City are properly accounted for, and do not promote accountability among staff. Also, cash handling duties have been inappropriately assigned to the City Secretary's Office.

Audit tests revealed that some deposits were not made in a timely manner, and that petty cash and change funds are excessive and not evaluated on a routine basis for necessity and/or reasonableness. Internal audit results also indicated that petty cash was dispensed without obtaining proper documentation and was not limited to incidental expenditures.

The current workers compensation process results in the City holding temporary income benefits (TIB) checks for extended periods of time. Also, methods used to transport monies from one City facility to the other do not minimize the risk of employee danger, theft and/or delayed deposits.

Training was not provided to employees who were given cash handling responsibilities, and credit card receipt copies generated by the City do not maximize identity theft protection.

These issues are discussed fully in the Detailed Audit Findings section of this report.

Audit Scope and Methodology

The City Auditor's Office reviewed cash handling transactions from October 2005 through September 2006, and verified the existence and propriety of petty cash and change funds.

During the planning phase of the audit, each department was asked to provide information regarding cash collections within their respective departments. The term "cash collections" refers to all methods of payment that are accepted by the City of Arlington [cash, checks, money orders, credit cards, Automated Clearing House (ACH), electronic payments, etc.].

Departments that collect money were asked to complete a cash handling survey. Internal Audit reviewed each department's survey responses to obtain information regarding cash handling practices and to identify potential control weaknesses.

Internal Audit also:

- Reviewed written cash handling procedures
- Interviewed personnel within cash handling departments
- Observed cash handling processes
- Reconciled monies collected to subsystems, sub-ledgers, etc.
- Evaluated internal controls related to adequate receipting, processing and safeguarding of monies collected
- Evaluated adequacy of petty cash and change funds

Background

The City of Arlington collects money from several sources. Monies may be collected directly from the customer (in person, via mail, or from drop box locations) or from third party custodians.

In addition to accepting traditional cash, check and money order payments, most departments also accept credit cards. The Community Development and Planning Department and the Municipal Court have expanded their acceptable payment methods to include internet payments, while the Water Utilities Department has expanded its acceptable payment methods to include internet, debit cards, bank drafts, and electronic payments.

Some departments have also been assigned petty cash and change funds. Petty cash funds may be advanced to employees to make purchases on behalf of the City or may reimburse employees for purchases made on behalf of the City with the employees' personal funds. Change funds are held by departments to make change where cash is regularly received from customers. An evaluation of controls surrounding petty cash and change funds was included in this audit.

The City has a commercial crime insurance policy that covers all City employees. The policy coverage consists of:

- public employee dishonesty
- forgery or alteration
- theft, disappearance and destruction
- computer fraud
- credit card forgery

The Financial Services Department implemented a citywide Cash Handling Policy, effective June 29, 2006. The cash handling policy was developed to provide a means of effectively safeguarding, depositing, and accounting for cash on behalf of the City. While each department and/or division is to abide by the general guidelines established by the Financial Services Department, each department and/or division is responsible for developing their own specific procedures within the guidelines established by the Financial Services Department.

Detailed Audit Findings

1. Necessary controls do not exist within the manual cash receipting process.

- Some departments currently purchase pre-numbered cash receipts from office supply stores. Although purchasing pre-numbered manual cash receipts from an office supply store may be convenient, the opportunity for theft is increased. Employees could easily purchase additional cash receipt books for themselves, record payments onto their “personal” receipt book, issue their “personal” receipt to the customer, and never report the revenue. Such thefts would be hard to detect.
- Three City departments (City Attorney, Management Resources and Public Works) do not record monies collected onto pre-numbered cash receipts. Instead, monies received by the City Attorney’s Office and the Management Resources Department are recorded on un-numbered receipts that are purchased from an office supply store. The Public Works Department prints an un-numbered document that serves as a receipt.

Although the amount of money collected by these departments may be minimal, by not using pre-numbered cash receipts, there is no assurance that all monies collected on behalf of the City have been reported and recorded in the City’s financial records. Water Utilities uses un-numbered cash receipts to account for payments received when the automated water utility billing system or the network is inoperable. After service is restored, manual cash receipt information is entered into the system and cash receipts are system-generated.

Controlling the issuance of cash receipts is good internal control. The controls not only provide an audit trail, but also help provide accountability within departments. Pre-numbered receipts help ensure that all monies received are accounted for. By utilizing and tracking pre-numbered receipts, management can be reasonably assured that the financial records accurately reflect financial transactions that have occurred.

The Cash Handling Policy developed by the Financial Services Department requires that employees “provide a receipt to every customer paying in person. (Cash register receipt or “city issued” pre-numbered receipt book.)”

Recommendation:

The Financial Services Director should enforce its requirement that all monies received on behalf of the City and manually recorded, be recorded onto pre-numbered receipts that have been issued by the Financial Services Department. Manual cash receipts from anywhere other than the Financial Services Department should be prohibited.

Management's Response:

Treasury has developed pre-numbered receipts in bound booklet form. All departments will be required to use the new receipt booklets. No other receipt forms will be allowed except those issued by Treasury. Treasury will audit periodically to ensure compliance.

Target Date: July 15, 2007

*Responsibility: Anna Mosqueda, Financial Services Director
Paulette Uzee, Treasury Analyst*

Recommendation:

The Financial Services Director should require that the Financial Services Department track the numerical sequencing of cash receipts issued to user departments.

Management's Response:

Treasury has developed and instituted a log sheet to track the numerical sequencing of cash receipt books issued to user departments. The log will be maintained by Financial Services Administrative Aide.

Target Date: Completed

*Responsibility: Anna Mosqueda, Financial Services Director
Paulette Uzee, Treasury Analyst*

Recommendation:

The Financial Services Director should require that Department Heads ensure that:

- all manual cash receipts are properly accounted for;
- at least one receipt copy is retained in a cash receipt book; and,
- receipt books are retained as required by the State's records retention law.

Management's Response:

Treasury will update the cash handling policy to address the points listed above. The Financial Services Director will present policy revisions at a joint directors/assistant directors meeting and issue notification of policy change. Treasury will audit periodically to ensure compliance.

Target Date: August 1, 2007

*Responsibility: Anna Mosqueda, Financial Services Director
Paulette Uzee, Treasury Analyst*

2. The format of pre-numbered manual cash receipts, issued by the City of Arlington, does not promote accountability among staff.

Cash receipts should be designed to accommodate pertinent information related to cash handling and to ensure that accountability is easily established among those who have been given the responsibility of processing monetary transactions.

Internal Audit noted the following issues related to pre-numbered manual cash receipts issued by the City of Arlington:

- Although the manual cash receipts are pre-numbered, they are not bound. Better controls exist when manual cash receipts are printed in booklets and are assigned to staff, by booklet. If a particular cash receipt is not accounted for, management could easily determine which staff member is responsible for the related receipt booklet. By not having cash receipts printed in booklets, it is easier for departments to issue receipts out-of-sequence.

An example noted during the audit was within the Animal Control Division. The Animal Control Division stores pre-numbered manual cash receipts in a storage closet. Persons responsible for recording cash collections onto the pre-numbered cash receipts obtain stacks of receipts at a time. Since the receipts are not in booklets, no specific set of receipts is assigned to specific employees. When receipts taken to a mobile unit are not used, those unused receipts are placed back in the supply closet, resulting in the subsequent issuance of out-of-sequence receipts. Internal Audit identified hundreds of cash receipts that had been issued out of sequence. Due to the process in which these cash receipts were issued, a substantial amount of time would have been required for Internal Audit to account for the receipts. Internal Audit, therefore, did not account for the out-of-sequence receipts.

- City-issued manual cash receipts do not include the method of payment. Requiring staff to document the method of payment helps identify irregularities related to cash deposits, should any exist.

As more City applications become automated, the need for manual cash receipts should decrease. The use of manual cash receipts may be limited to the recording of miscellaneous receipts such as copies and open records requests and/or to record payments received when an automated system or the City network is inoperable.

Recommendation:

The Financial Services Director should require that City-issued, pre-numbered manual cash receipts be issued in booklets and that user departments assign the booklets to their staff on an individual basis, if appropriate. If a receipt book is to be shared among employees, the Financial Services Director should require that the employee, receiving the money, sign the manual cash receipt (as it is issued) to evidence that he/she personally received the funds.

Management's Response:

Treasury has developed and instituted a log to track the numerical sequencing of cash receipt books issued to user departments. The cash handling policy will be revised to require that user departments either assign receipt books to staff on an individual basis or direct staff to personally sign manual cash receipts as they receive funds. The Financial Services Director will communicate policy revisions. Treasury will audit periodically to ensure compliance.

Target Date: August 1, 2007

*Responsibility: Anna Mosqueda, Financial Services Director
Paulette Uzee, Treasury Analyst*

Recommendation:

The Financial Services Director should require that pre-numbered manual cash receipts, issued by the Financial Services Department, be revised to require the method of payment.

Management's Response:

Treasury has developed pre-numbered receipts in bound booklet form. The new design includes a field for method of payment.

Target Date: August 1, 2007

Responsibility: Paulette Uzee, Treasury Analyst

3. There is no accountability for persons collecting money.

Internal controls help ensure that there is adequate accountability for monies collected. Once such controls are established, persons responsible for collecting money can be held accountable for the validity of their actions.

Cashiers within the Community Development and Planning Department are responsible for collecting monies for permits, development fees, and miscellaneous items such as copy charges. Permit and development fees are entered into the AMANDA system, while miscellaneous charges are taken at the register.

The Community Development and Planning Department reconciled total monies being deposited to an AMANDA report that summarized activity by day, rather than by cashier. As a result, cashier accountability was not established. If a theft or misappropriation had occurred, management would have had no way of determining which cashier was responsible for the stolen or misappropriated funds. During the audit, supervisors within the Community Development and Planning Department began reconciling daily collections by cashier.

The Fire Department enters a minimal amount of payments into AMANDA. Since AMANDA reports do not segregate payments entered by the Planning Department from those entered by the Fire Department, the Fire Department prepares manual cash receipts to support payments entered

into AMANDA. The customer is given a copy of the system-generated receipt and the manual cash receipt.

Payments entered by the Fire Department are included in daily AMANDA totals. The Planning Department records a shortage on their daily revenue summary report, to account for money collected and entered into AMANDA by the Fire Department. Although the reported shortage is not a true shortage, it is being properly reported because the amount of money being deposited by Planning is less than what is represented in AMANDA. This issue will be compounded as more departments are granted authority to record monies received into the AMANDA system.

Recommendation:

The Fire Chief should require that each cashier provide a signed document evidencing the total monies collected on a daily basis, by type (e.g., cash, check, credit card). Management should then reconcile the daily AMANDA activity report, by cashier, to the cashiers' reported collections. If any discrepancies are noted, the manager and cashier should make every effort to resolve any exceptions on the same day.

The AMANDA report, by cashier, should only be accessible to those given the responsibility to verify cashier collections.

Management's Response:

The Fire Department requested in February 2007 that the Information Technology Department provide a solution to our inability to consolidate daily revenue due to the fact that we share the same "Batch" or register as Planning Development in AMANDA. In response to this request, a solution was offered through One-Start Cashier. This system would provide a log for each user to consolidate his/her daily collections; however, it has not been implemented due to a couple of problems, which IT is still looking into.

*Target Date: June 29, 2007
(based on IT issue resolution - work order # 56629)*

Responsibility: Brian Riley, Assistant Fire Chief / Fire Marshal

Recommendation:

The Information Technology (IT) Director should require that IT staff review the AMANDA system and determine whether AMANDA is capable of producing reports that segregate payments entered, by department. If it is possible to produce reports that segregate payments entered into AMANDA, by department, those reports should be made available to Planning and Fire staff as soon as possible.

Management's Response:

Creating a report that segregates payments entered by department is only one step in resolving the problem. The other steps involved are cleaning up (standardizing) the existing department name data and creating a procedure where the department name associated with users is

consistent (such as obtaining the department name from Lawson). Information Technology will facilitate discussions with departments to determine the best way to ensure department names are entered consistently. Information Technology has determined that with the aforementioned changes, the report can be created and should produce the desired results. Information Technology will create the requested report or contract with Canadian Software Development Company (CSDC) to create the report. [CSDC is the company that makes the AMANDA software].

Target Date: August 2007

Responsibility: Tom Wilson, Assistant Information Technology Director

4. Cash handling duties assigned to the City Secretary's Office appear inappropriate.

The City Secretary serves as the official record keeper of business conducted by the Arlington City Council. The City's website indicates that some of the City Secretary's Office duties include functioning as the custodian of all City Ordinances and Resolutions, attending and recording all City Council meetings, conducting City elections, and administering oaths of office to Council members, Municipal Court judges and police officers. The City Secretary's Office is also responsible for supervising the codification of the City Code.

When on the first floor of City Hall, the City Secretary's Office was responsible for collecting money for liquor licenses and providing the City's contracted courier with consolidated City bank deposits. The City Secretary's Office's level of involvement in the liquor licensing process was examining the history of liquor licenses at requested locations and then forwarding necessary paperwork to Building Inspections for zoning compliance. Once the Building Inspections Division verified proper zoning and distancing (e.g. proximity to schools), the City Secretary's Office notified the license applicant, accepted the applicant's payment, and then stamped the licensing document with an official City seal. Since relocating to the third floor, the City Secretary's Office continues to process liquor licenses as they did when located on the first floor; however, they no longer prepare consolidated City deposits.

Cash handling duties should be assigned to departments in which the purpose for collecting those monies is an integral part of their daily operations. The City Secretary's Office collects monies for open records requests and City Council filing fees. Since the City Secretary's duties involve City records and Council elections, collecting money for open records requests and Council elections seems appropriate. However, assigning the collection of liquor licensing fees to the City Secretary does not.

Recommendation:

The Community Development and Planning Director and the Management Resources Director should determine the most appropriate department/division to collect liquor license fees, taking into account, the nature of the business and the additional burden on staff.

Management's Response:

The Community Development and Planning Department will consider taking over the entire liquor permit process with the implementation of AMANDA Phase II in FY 2008. If this is deemed to be possible, the entire liquor license process will be brought from the City Secretary's Office to the Community Development and Planning Department. This will allow the liquor license process, administration and fee collection, to remain within a single office, and avoid any disruption of customer service in this area.

Target Date: September 31, 2008

*Responsibility: Barbara Heptig, City Secretary
Jim Parajon, Community Development and Planning Director
Jennifer Wichmann, Administrative Services Manager*

5. Deposits were not made in a timely manner.

Funds should be deposited in a timely manner. However, internal audit results indicated that some deposits were made over 30 days after the date the monies were collected. There were many instances where deposits were made over 20 days from the date the monies were collected. Since the Financial Services Department did not utilize a deposit log to document their receipt of funds from other departments, Internal Audit was unable to determine whether the untimely deposits were due to delays within the Financial Services Department or within the user departments.

The risk for loss or misappropriation is increased when funds are not deposited in a timely manner. The City also risks the loss of interest that otherwise could be earned when monies are deposited in a timely manner.

The Financial Services Department began using a deposit log during this audit. A deposit log provides an audit trail of funds that have been transferred from one person to another. A properly designed and completed deposit log may be used to research deposits that are unaccounted for, and may also help determine why a deposit was not received at the bank in a timely manner, etc.

Recommendation:

The Financial Services Director should ensure that Financial Services staff monitors the deposit log for untimely deposits. Department Heads should be notified of noncompliance. Repetitive noncompliance should be communicated to the appropriate Deputy City Manager.

Management's Response:

Financial Services staff currently logs each deposit brought into the department. The log indicates the date the deposit was prepared. The Treasury Analyst uses this log to monitor the timeliness of the deposits. Also, the bank reconciliation accountant monitors deposit dates. The Financial Services Director will be notified of untimely deposits and will communicate the

noncompliance to department heads. Repetitive non-compliance will be brought to the attention of the appropriate Deputy City Manager.

Target Date: Completed

Responsibility: Anna Mosqueda, Financial Services Director

6. Petty cash and change funds are excessive.

Authorized petty cash funds should approximate the funds' estimated average monthly expenditures. When the purpose for which a fund was established no longer exists, it is good business practice to close out the fund in accordance with established fund close-out procedures.

Some departments replenished their petty cash funds on a monthly basis, while others replenished their funds on a less frequent basis. A spreadsheet maintained by the Financial Services Department indicated that the City had 44 petty cash funds as of 09/30/06. Activity within the general ledger was reviewed to determine the reasonableness for 13 of the 44 petty cash funds judgmentally selected by Internal Audit.

Internal Audit's general ledger observation indicated that replenishments for eight (8) of the 13 petty cash funds reviewed were far less than the established fund amount. Replenishments that are far less than the established fund amounts indicate that the funds should be reduced. If the funds are not reduced, funds that could be available for general operating purposes sit idle, and the opportunity for theft and misappropriation is increased.

Of the 13 petty cash funds reviewed, the following funds were considered to be in excess of the petty cash fund requirements.

Fund Location	Authorized Fund Amount	Average Replenishment (rounded to nearest hundred)	Approximate Replenishment Frequency
City Secretary	\$3,000.00	\$ 0.00	None
City Secretary	\$3,000.00	\$1,500.00	Monthly
City Manager	\$ 250.00	\$ 200.00	Annually
Parks	\$ 800.00	\$ 400.00	Monthly
Parks	\$ 800.00	\$ 400.00	Monthly
Fire	\$ 500.00	\$ 300.00	Five (5) times per year
Aviation	\$ 200.00	\$ 0.00	None
Convention Center	\$ 800.00	\$ 300.00	Twice per year

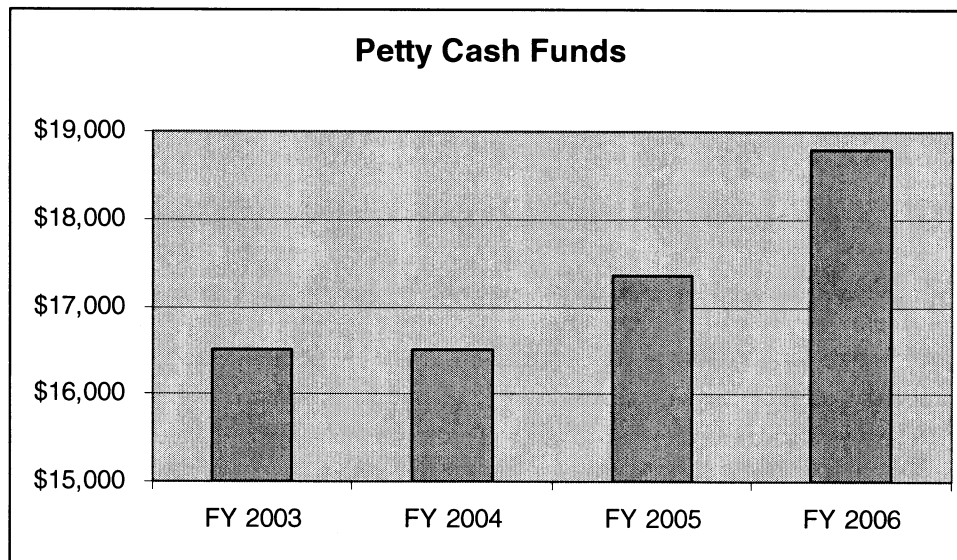
- Although petty cash activity within the City Secretary's Office decreased after the office relocated, the petty cash funds within that department remained unchanged. One \$3,000.00

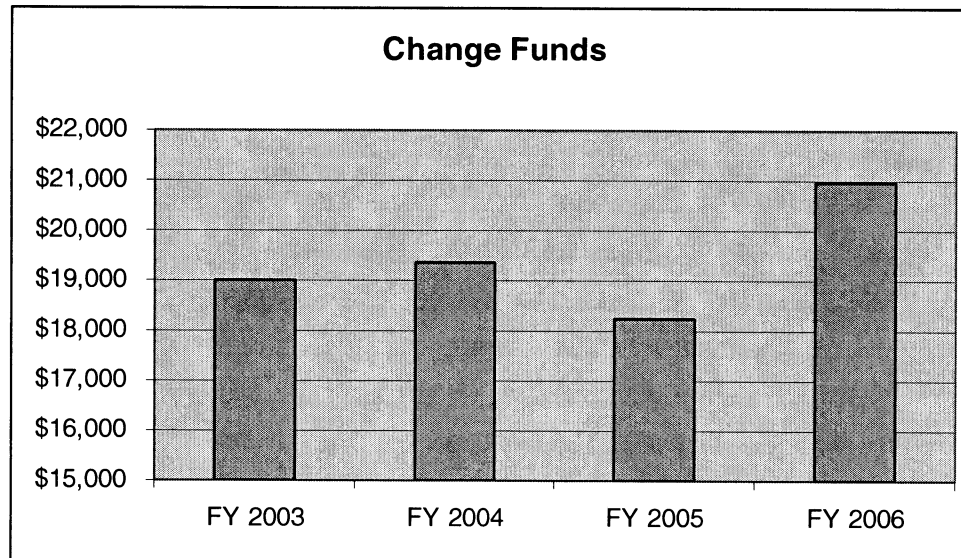
petty cash fund sat idle throughout fiscal year 2006, while petty cash activity within the other \$3,000.00 petty cash fund approximated only \$1,500.00 per month.

- The Parks and Recreation Department anticipated an increase in its petty cash activity due to the City Secretary's Office relocating. Parks' petty cash fund was increased; however, its petty cash requirements remained the same. As a result, Park's petty cash funds exceeded the petty cash requirements by the amount of the petty cash fund increase.
- Internal Audit found no evidence that analyses of petty cash funds requirements have been conducted, although petty cash use should have decreased due to the City's implementation of procurement cards.

In addition to the reasonableness of petty cash funds, Internal Audit noted that the Arlington Convention Center utilizes a fund to provide change to customers paying for parking. Although Convention Center staff is aware that some events will be low car counts, the parking change fund is not reduced accordingly. In some instances, Internal Audit noted that the established change fund more than doubled the total parking revenue generated during a specific event.

The following charts illustrate how petty cash and change funds have increased throughout the years. While an increase in total change funds may be warranted (e.g., due to new facilities/operations), our audit results indicate that an increase in petty cash funds is not.



***Recommendation:***

The Financial Services Director should require that all departments immediately conduct a petty cash and change fund usage review. Based on the results, Department Heads (in conjunction with the Financial Services Director) should determine whether each fund is necessary, adequate, or excessive. Unnecessary funds should be closed out, inadequate funds should be increased, and excessive funds should be reduced. When determining necessity for petty cash funds, the number and amount of petty cash funds at each City facility should be considered.

Management's Response:

Petty cash and change funds have been reviewed. Unnecessary and excessive funds have been identified. Financial Services will address with Department Heads the closing or decreasing of funds.

Target Date: August 1, 2007

Responsibility: Sherry Wright, City Controller

7. Petty cash vouchers were not properly completed prior to reimbursing employees.

Petty cash vouchers should be properly completed and original documentation should be attached as support for related expenditures. An unannounced petty cash observation revealed that petty cash vouchers were not properly completed prior to reimbursing employees.

A petty cash custodian within the Parks and Recreation Department reimbursed employees from petty cash funds although the petty cash disbursements had not been properly approved by the user department. Also, an employee (to whom the money was disbursed) was not required to sign the petty cash voucher to acknowledge that he or she received money from the petty cash custodian. In other instances, the same petty cash custodian did not document the amount of

money disbursed, did not sign the petty cash voucher to acknowledge that funds were disbursed, and did not document the item description, purpose and/or budgetary information onto the petty cash voucher.

Petty cash vouchers include a section for departmental approval. When petty cash reimbursements are made prior to obtaining proper approval, the opportunity to reimburse employees for unauthorized, illegitimate, and/or unallowable expenses is increased. Also, accountability is lost when signatures of the persons receiving and/or disbursing petty cash funds is not required at the time of the disbursement.

Although these petty cash vouchers were not properly completed at the time that the funds were disbursed, the disbursement amounts, descriptions of items purchased, budgetary information and necessary signatures had been properly documented prior to requesting replenishment from the Financial Services Department.

Recommendation:

The Parks and Recreation Director should require that applicable managers routinely conduct unannounced petty cash fund reviews. Petty cash custodians who continue to reimburse employees prior to obtaining necessary approval, signatures, etc. should be relieved of petty cash custodian duties.

Management's Response:

Concur. Petty cash custodians have been reminded that all reimbursement request forms must be complete and include proper approval signatures prior to reimbursing the employee. Staff recommends a progressive discipline approach first before relieving employee of duties that may impact the workload of other employees. We suggest that the periodic auditing of petty cash funds be assigned to the Parks Accounts Analyst as a core responsibility.

Target Date: June 2007

Responsibility: Parks Accounts Analyst

8. Petty cash funds were used for non-incidental expenditures.

Petty cash funds should be used to pay for incidental expenses that have been properly authorized. Petty cash funds should not be used to make customer refunds.

- An unannounced petty cash count indicated that petty cash is sometimes used to reimburse employees for non-incidental expenses. A petty cash voucher reviewed during our unannounced cash count stated that an employee was reimbursed for Iron Age Oxfords/one pair of pants at \$99.00. Further review of this transaction revealed that the Iron Age Oxford was a pair of Polo shoes, not pants. Since the petty cash voucher was typed, the employee may have used a previous petty cash voucher template, but failed to adequately change the description.

When employees are reimbursed for non-incidental expenses such as clothing supplies/uniforms via petty cash, it is harder to track clothing allowances granted to individual employees. Also, since some clothing can be worn for personal use, the City is at risk of not properly taxing employees for clothing allowances paid via petty cash.

A cursory review of the clothing supplies/uniform general ledger account indicated that clothing supplies/uniforms are sometimes purchased via petty cash, procurement card and accounts payable. Internal Audit has, therefore, deemed it necessary to conduct a separate uniform allowance/reimbursement audit during the FY 2007 fiscal year.

- The Parks and Recreation Department stated that on rare occasions, cash refunds that are less than the threshold established by the Financial Services Department are issued from the petty cash fund at 717 Main Street. The Financial Services Department indicated that customer refund processed through Accounts Payable should be at least \$50.00.

Upon issuance of a cash refund, the customer receiving the refund and the Parks Technical Manager sign the petty cash form. Parks and Recreation staff indicated that the Accounts Payable Division is not asked to process a check refund in these instances. Under the current process, it would be hard to detect duplicate refunds (one from petty cash and the other from accounts payable), should any occur. For purposes of this audit, Internal Audit did not test for duplicate refunds.

The Parks Department does not issue customer refunds from its cash drawers because their automated system, CLASS, is not set up to allow cash refunds. If cash refunds were issued from the cash drawers, the Parks Department's daily revenue summary report would be short in the amount of the refund.

Recommendation:

The Financial Services Director should prohibit staff from using petty cash to refund customers, and should require that petty cash only be used to reimburse or advance employees for incidental purchases made on behalf of the City.

Management's Response:

Current threshold for petty cash reimbursement is limited to \$50.00 for all locations except for six whose threshold is \$100.00. Treasury will revise the petty cash policy to more clearly state that petty cash is to be used only to reimburse or advance employees for incidental purchases made on behalf of the City. Language will also be incorporated to prohibit use of petty cash to refund customers. Non-compliance will be grounds for Financial Services to consider closing the petty cash fund.

Target Date: August 1, 2007

*Responsibility: Anna Mosqueda, Financial Services Director
Paulette Uzee, Treasury Analyst*

Recommendation:

The Financial Services Director should revisit the City's practice for issuing cash refunds.

Management's Response:

The petty cash policy will be amended to prohibit staff from using petty cash to refund customers. Non-compliance will be grounds for Financial Services to consider closing the petty cash fund.

Target Date: August 1, 2007

*Responsibility: Anna Mosqueda, Financial Services Director
Paulette Uzee, Treasury Analyst*

9. The responsibility for preparing Parks and Recreation Department deposits is not assigned to the facility managers.

The Parks and Recreation Department's administrative office is responsible for preparing deposits on behalf of each recreation center, golf course, etc. Service Representatives located at each parks and recreation facility reconcile their daily collections against Parks' CLASS system report, place their monies and accompanying CLASS report in a clear sealed deposit bag and drop the sealed bag into a drop safe within their facility. Upon receipt of the deposit within Parks administrative offices at 717 Main Street, administrative staff cut open the sealed deposit bags, verifies the bag contents and then prepares the bank deposit. Under the current process, if there was a discrepancy between the amount of money reported by the Parks administrative staff and the Service Representatives, establishing accountability between the two would be a very hard task, if at all possible.

From January 6, 2007 through April 19, 2007, the total cost of clear sealable deposit bags purchased by the Parks and Recreation Department was approximately \$200. The Financial Services Department has indicated that the City's contracted bank provides clear sealable deposit bags at no cost to the City. The funds being expended by Parks to purchase deposit bags is, therefore, unnecessary. Since the sealed deposit bags are cut open and thrown away by Parks' administrative staff, purchasing the sealed bags is not cost effective. If the bags were obtained from the bank, cutting open the bags by Parks administrative staff would not promote a good business relationship with the bank.

Recommendation:

The Parks and Recreation Director should require that at the end of each shift, collections reported by Service Representatives be verified by a second party within that facility, preferably a supervisor or manager, in the presence of the Service Representative. The verification should take place prior to sealing the deposit bag.

Management's Response:

Concur. The Parks and Recreation Department agrees that the best scenario is that a supervisor verifies the collections reported by the Customer Service Representative, in the presence of the Customer Service Representative (CSR), at the end of their shift. Following their shift, the CSR must reconcile any receipts out of public view for safety reasons. Revenue reconciliation during the business day would require a minimum of three employees on site; two to reconcile collections and one or more employees to manage the service counter. Some facilities run with only one counter employee at times and facility managers are not typically on duty when buildings close. The department is seeking additional funding in FY 2008 to ensure adequate facility staffing.

Target Date: June 2007

*Responsibility: Wendy Parker, Athletic Programs Manager
Yvonne Falgout, Center Programs Manager
Sheryl Osborn, Tennis Facility Manager*

Recommendation:

The Parks and Recreation Director should require that facility supervisors or managers, available at the end of a Service Representative's shift, reconcile the CLASS activity report to the verified collections (discussed in the preceding recommendation) and make every effort to resolve any discrepancies, on the same day. Any discrepancy between the total deposit and CLASS should be reported to the Financial Services Department as cash over or short.

On days when the facility supervisor or manager is not available at the end of a Service Representative's shift, the facility supervisor or manager should reconcile the CLASS activity report to collections and the deposit ticket, and make every effort to resolve any discrepancies as soon as possible. Any discrepancy between the total deposit and CLASS should be reported to the Financial Services Department as cash over or short.

Management's Response:

Partial Agreement. Current processes are in place to compare revenue receipts to the CLASS daily cash balance report and then to the deposit slip. Customer Service Representatives are required to contact a supervisor if their collections do not balance with the CLASS daily cash balance report. CSRs are required to document any discrepancy on the report. This report is included in the cash transmittal bag and is reviewed by the Parks Administration staff person that prepares the deposit. Parks Administration notifies the CSR's supervisor of any discrepancies along with any error resolution details. This information is noted as over/short on the revenue report and any transaction details are submitted to Finance.

Staff notes that the recommendation to require deposit preparation by location cannot be implemented and sustained with the current level of management assigned to each location. Resources are not available to verify and reconcile same day revenue activity.

Target Date: June 2007

*Responsibility: Wendy Parker, Athletic Programs Manager
Yvonne Falgout, Center Programs Manager
Sheryl Osborn, Tennis Facility Manager*

Recommendation:

The Parks and Recreation Director should require that each facility prepare its own bank deposit and take advantage of the clear plastic bank bags that are provided to the City at no charge.

Management's Response:

Disagree. The Department's centralized revenue processing system was implemented as a result of the March 11, 1994 audit that made a recommendation to "Consider working with Internal Audit and the Area Coordinators to establish a Central Cashier function for Parks Administration. We believe a Central Cashier function will significantly strengthen internal controls. A centralized front desk could effectively give the individual coordinators in the six areas more time to manage their operations."

Management's opinion is that the current process has significant checks and balances in place to quickly identify problems. Requiring all locations (11) to prepare their own deposits would create additional work demands for facility managers and could result in revenue processing delays.

Target Date: No changes recommended

Responsibility: Not applicable

Audit Comment:

The City Auditor's Office does not feel that the recommended process would create additional work demands that are unreasonable, nor do we feel that it would result in any additional revenue processing delays.

10. Temporary income benefit checks, relating to workers' compensation, were not processed in a timely manner

The City goes beyond the requirements of the Texas Workers' Compensation Act by providing a Salary Continuation Plan to supplement temporary income benefits (TIB). Under the Salary Continuation Plan, the City does not pay TIB to employees who have job-related injuries. Instead, the City pays the employees' full salaries and has employees remit the TIB payments back to the City.

City documents indicate that the Salary Continuation Plan was chosen for a number of reasons. One reason was it allows contributions to various benefit programs to continue uninterrupted and, therefore, protects service accrual in programs where vesting is required (e.g., TMRS). Also, since workers' compensation is nontaxable, management concluded that employees were actually taking home more money while on injury leave and, therefore, had no incentive to return to work.

The City requires that employees on workers' compensation go to Workforce Services to pick up their regular payroll checks and endorse the TIB (received by the City from the third party administrator) to the City. Internal Audit results indicated that that TIB received from the City's third party administrator (TPA) are being held by the Workforce Services Department for extended periods of time because employees are not coming in to endorse the checks to the City of Arlington.

On December 7, 2006, Workforce Services had in its possession 27 checks totaling approximately \$15,000.00. The check dates ranged from February 16, 2006 through November 15, 2006, and were made payable to 25 current and two former City employees, in care of the City of Arlington. Since the City implemented direct deposits of paychecks, there is less of an incentive for employees to come into Workforce Services. The City risks non-reimbursement of the checks that were made payable to two former employees (totaling approximately \$4,000.00), and has encountered delays of other funds that should be readily available for general City operations.

Recommendation:

The Workforce Services Director should determine whether the City can legally seek reimbursement for TIB payments made payable to the two former employees.

Management's Response:

We have requested that the checks be re-issued and they will be marked as "Deposit Only" and be deposited back into the appropriate departmental accounts. According to our policy, the former employees accepted their pay, therefore we can legally deposit the checks.

At this time, Specialty Risk - Hartford (our previous Workers' Comp TPA) has told the Workforce Services Department that the checks will be processed. However, we do not have a solid date as to when we will receive them.

Target Date: mid-June 2007

Responsibility: Cynthia Fountain, Administrative Aide II

Recommendation:

The Workforce Services Director should explore other options that result in the City being able to process the TIB checks in a timely manner. Existing personnel policies and procedures should then be revised accordingly.

Management's Response:

The process has been reviewed. It has been slightly altered but does not require changes to the existing policy and procedures. Workforce Services' Administrative Aide II contacts the individuals and when there is no response, she leverages the WFS Consultants to reach out to the individual and their supervisor when necessary. This results in eliminating the issues that occurred in the past.

Target Date: Completed

Responsibility: Cynthia Fountain - Administrative Aide II

11. Methods of transporting monies do not minimize risks.

Employee safety is a valid concern when it relates to the physical handling and transporting of monies on behalf of the City. Also, physical safeguards and internal control should be in place to minimize risks associated with the method in which monies are transported.

- As a convenience to citizens needing to pay court fines and fees, the City has installed a drop box at the Ott Cribbs Police building. Monies placed in the drop box are retrieved and transported to the Municipal Court by Court employees.

Initially, the Ott Cribbs drop box collections, along with collections received at the Municipal Court, were physically transported from the Municipal Court building to the Water Utilities Department by an armed police officer. During this audit, the Municipal Court moved from their building at 200 W. Abram to the Municipal Office Tower (at 201 E. Abram), and began using the Financial Services Department as their deposit drop-off point.

Since the Financial Services Department is also located in the Municipal Office Tower, Court staff now transport their deposits to the Financial Services Department by riding elevators that are also used by the general public. Considering the amount of money collected by the Municipal Court (over \$800,000 in cash and checks alone, per year), and the level of traffic within the building, employee safety is a valid concern.

- Employees within other departments physically transport monies from their satellite offices directly to the bank or to the Financial Services Department.
- The Management Resources Department and the Public Works Department are located in City Hall, but physically transport monies to the Financial Services Department. Since an armored carrier is currently contracted to make a stop at City Hall, it is inefficient when departments located at City Hall transport their monies to another building. Staff incurs an unnecessary personal risk and the potential for theft and untimely deposits is increased.
- The Fire Department and Risk Management Division send checks and money orders to the Financial Services Department via interoffice mail. Risk Management notifies Financial Services when the checks have been placed in interoffice mail. Upon receipt of the checks, Financial Services notifies Risk Management that the checks have been received and then prepares the checks for deposit. Since neither the Fire Department nor Risk Management makes their own deposit, they have not been issued restrictive endorsement stamps.

Recommendation:

The City Manager should review the City's current policy and/or practices related to staff physically transporting cash and ensure that procedures emphasize employee safety.

Management's Response:

Additional courier pick-ups have been scheduled for various departments, decreasing the number of departments physically transporting cash. The Financial Services Director will discuss the City's current practices for the remaining departments that transport cash with the City Managers' Office.

Target Date: August 1, 2007

Responsibility: Anna Mosqueda, Financial Services Director

Recommendation:

The Financial Services Director, in conjunction with the Municipal Court Director, should amend the current courier contract to include an additional stop at the Municipal Court. If the current contract cannot be amended, a separate contract should be considered.

Management's Response:

An additional courier pick-up is now occurring for Municipal Court.

Target Date: Completed

Responsibility: Paulette Uzee, Treasury Analyst

Recommendation:

The Financial Services Director should prohibit departments from using interoffice mail to transport monies that are to be deposited.

Management's Response:

The Director of Financial Services will notify all department heads and deposit contacts informing them that all monies to be deposited must be hand delivered and that the use of inter-office mail to deliver monies is prohibited. The cash handling policy will be revised to include this directive.

Target Date: August 1, 2007

*Responsibility: Anna Mosqueda, Financial Services Director
Paulette Uzee, Treasury Analyst*

Recommendation:

The Financial Services Director should provide restrictive endorsement stamps to all departments that collect money on behalf of the City, and require that departments restrictively

endorse checks and money orders upon receipt, prepare their own deposit slips and utilize deposit drop-off points that are in the closest proximity to their worksite.

Management's Response:

The Treasury Division surveyed all departments. Additional stamps have been ordered, received, and issued with communication to those departments who did not already have or were not properly using endorsement stamps. Treasury will instruct departments on proper endorsement stamp procedures and monitor to insure compliance.

Target Date: Completed

Responsibility: Paulette Uzee, Treasury Analyst

12. Necessary training was not provided.

Cash handling training should be provided to equip employees with information necessary for them to effectively perform their job duties. Surveys completed by individual departments indicated that cash handling training had not been provided to those given the responsibility for collecting money. Financial Services staff confirmed, by stating that they were unaware of any cash handling training sessions ever being provided to staff.

By not receiving necessary training, staff may not be aware of their role as it relates to cash handling, and may not be aware of the purpose for necessary controls such as segregation of duties, reconciliations, etc.

Recommendation:

The Financial Services Director should conduct mandatory cash handling training sessions for all employees that handle money on behalf of the City, on at least an annual basis.

Management's Response:

Treasury employees and key cash handling staff from various departments will attend a cash handling seminar on July 27, 2007. Also, the Treasury Division will identify cash handlers throughout the City and conduct a training session for them. The Treasury Division will conduct this training annually thereafter. All employees identified as cash handlers will be required to attend the city's cash handling training.

Target Date: August 31, 2007

*Responsibility: Anna Mosqueda, Financial Services Director
Corrine Steeger, Treasury Manager*

13. Credit card receipt copies do not maximize protection against identity theft.

Receipts for credit card payments received at the Municipal Court, Neighborhood Services, Parks and Recreation and the Community Development and Planning Departments show the entire credit card number and expiration date on the merchant copy. The entire credit card number and expiration date are not displayed on the customer's credit card receipt copy.

Effective September 2003, Texas Senate Bill 235 was passed to help fight identity theft. Unless the sole means of recording a person's credit card information is by handwriting or by an imprint or copy of the credit card, the State requires that the expiration date and all but the last four digits of the credit card be truncated from the receipt provided to the cardholder. The merchant's copy does not have to be truncated.

Although the City is in compliance with existing law, displaying entire credit card numbers and expiration dates does not provide the maximum protection to help prevent citizens from becoming victims of identity theft.

The Water Utilities Department and the Animal Shelter truncate all but the last four digits of the credit card and do not show the credit card expiration date on either the merchant or customer receipt copy.

Recommendation:

The Financial Services Director should require that customer and merchant credit card receipt copies show only the last four digits of the credit card numbers, and exclude the printing of the credit card expiration dates.

Management's Response:

The Cash and Debt Administrator will contact all departments that currently use credit card machines and identify which machines need to be reprogrammed to eliminate printing of the customer's credit card number and expiration date. Department procedures will be revised to accommodate the changes.

Target Date: August 1, 2007

*Responsibility: Corrine Steeger, Treasury Manager
David Balsamo, Cash and Debt Administrator*